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ANNUAL REPORT

1967

PHILLIPS CABLES LIMITED



*Aerial View of the Head Office and Factory
at Brockville, Ontario, on the St. Lawrence
River between Montreal and Toronto.*



ANNUAL REPORT

For the Year Ended December 31, 1967

BOARD OF DIRECTORS

AIR MARSHAL H. CAMPBELL	Ottawa, Ont.	G. GINGRAS	Montreal, Que.
DR. W. J. J. CURRY	London, England	T. A. LINDSAY	Brockville, Ont.
J. K. DAVIS	New York, U.S.A.	J. E. THOMAS	Brockville, Ont.
A. L. FERGENSON	New York, U.S.A.	A. S. TORREY	Montreal, Que.
W. FRASER	Ayr, Scotland	J. S. WADDINGTON	Brockville, Ont.

OFFICERS

<i>Chairman</i>	A. S. TORREY
<i>Vice-Chairman</i>	W. FRASER
<i>President</i>	T. A. LINDSAY
<i>Vice-President</i>	J. R. PHILIPS
<i>Vice-President</i>	J. E. THOMAS
<i>Vice-President</i>	J. S. WADDINGTON
<i>Vice-President & Secretary-Treasurer</i>	M. F. W. GREENE
<i>Assistant Treasurer</i>	R. B. WOLTON
<i>Assistant Secretary</i>	E. W. REYNOLDS

MANAGEMENT

Communication Products	G. H. GALLIMORE	Power Products	R. C. SALKELD
Wire Mill	C. L. SHERMAN	Marketing	C. PRESCOTT

AUDITORS

RIDDELL, STEAD, GRAHAM & HUTCHISON
Montreal, Que.

TRANSFER AGENT AND REGISTRAR

NATIONAL TRUST COMPANY LTD.
Toronto and Montreal

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE

SOLICITORS

BORDEN, ELLIOT, KELLEY & PALMER
Toronto, Ont.

FINANCIAL HIGHLIGHTS

	1967	1966	1965	1964	1963
Sales	\$59,376,000	\$59,415,000	\$44,489,000	\$37,643,000	\$33,985,000
Income Taxes	\$ 1,803,000	\$ 3,525,000	\$ 2,643,000	\$ 1,564,000	\$ 529,000
Net Profit from Operations	\$ 3,375,000	\$ 3,539,000	\$ 2,059,000	\$ 1,204,000	\$ 510,000
Total Net Profit	\$ 3,525,000	\$ 3,879,000	\$ 2,199,000	\$ 1,324,000	\$ 510,000
Dividends Declared	\$ 871,000	\$ 837,000	\$ 386,000	\$ 317,000	\$ —
Depreciation Charged	\$ 1,225,000	\$ 1,210,000	\$ 1,038,000	\$ 1,124,000	\$ 994,000
Investment in Fixed Assets	\$ 4,543,000	\$ 3,726,000	\$ 2,148,000	\$ 736,000	\$ 427,000
Working Capital	\$13,021,000	\$12,833,000	\$ 8,479,000	\$ 7,254,000	\$ 5,964,000
Shareholders' Equity	\$19,460,000	\$16,798,000	\$10,474,000	\$ 8,563,000	\$ 7,377,000
Shares Outstanding	3,958,975	3,956,975	3,235,230	3,202,480	3,074,980
Earnings per Share:					
Operations	\$.85	\$.89	\$.64	\$.38	\$.17
* Profit on Inventory ..	.04	.09	.04	.03	—
Total	\$.89	\$.98	\$.68	\$.41	\$.17
Shareholders' Equity per					
Share	\$ 4.92	\$ 4.25	\$ 3.24	\$ 2.67	\$ 2.40

* Estimated profit realized on inventory due to copper price increases.



ANNUAL MEETING

The Annual General Meeting of the Shareholders of PHILLIPS CABLES LIMITED will be held at the Skyline Hotel, Stewart Boulevard, Brockville, Ontario, on April 26th, 1968, at two-thirty o'clock in the afternoon.

PHILLIPS CABLES LIMITED

Head Office,
Brockville, Ontario,
April 4, 1968.

To the Shareholders:

Your Directors have pleasure in submitting their 14th Annual Report.

EARNINGS

Despite adverse economic conditions in Canada during 1967, volume of sales was almost identical to the peak year of 1966. The after-tax profit of \$3,525,000 is the second highest in the Company's history, and was only 9% below the 1966 record. These earnings reflect reduced income taxes due to the tax exemption of our wholly-owned subsidiary — Phillips Cables (Western) Limited.

For a number of reasons, the before-tax profit was considerably lower than in 1966. These include —

- (a) Starting-up expenses associated with the expansion of our manufacturing facilities at Vancouver, Dartmouth and Brockville. This program was commenced in 1966 and virtually completed in 1967. During the construction stages, a considerable amount of disruption to production was unavoidable as much of the existing equipment had to be moved and relocated, and new personnel hired and trained.
- (b) Increased wage and salary costs arising out of new agreements with the labour unions in our various plants.
- (c) Phasing-out of certain operations at our Montreal plant which is still under an homologation order from the City of Montreal. Due to the uncertain future of this factory, some product lines have been transferred to other plants of the Company, and a new plant has been built at Rimouski, Quebec. The Montreal staff has been reduced and satisfactory termination settlements have been effected with the personnel concerned. This unavoidable action has resulted in additional expenses.
- (d) Competition for available business became very keen starting in late 1966 and has extended up to the present time. As a result, price levels have dropped in a number of product areas with corresponding reductions in profit. Due to improved productivity and better efficiency resulting from new equipment and manufacturing techniques, loss of profit in this area has been minimal.
- (e) The 1967 copper inventory profit was down compared to 1966 due to the increases in copper price being lower than the increases in the preceding year.

The expansion program has enabled the manufacturing units to improve production flow and reduce work-in-process stocks. This, combined with the support of the Central Warehouse operation, has permitted a substantial reduction in inventories. As a result, the cash position has improved materially compared to a year ago.

DIVIDENDS

On November 4, 1967, the capital stock of the Company was subdivided on the basis of five new shares for each old share. Dividends declared in 1967 on the basis of the subdivided shares were at the rate of 5 cents for the first three quarters. To reflect the confidence of the Directors in the continued earning power of the Company, the dividend was increased to 7 cents per share for the last quarter.

A dividend of 7 cents per share for the first quarter of 1968 was paid on April 1, 1968.

SALES

Sales continued at near record levels in 1967 due to heavy demand from domestic and export markets. The sales figure of \$59,375,000 is almost identical to last year's record, indicative of the outstanding performance of the Sales force.

As previously mentioned, price competition was particularly severe during 1967, and actual physical volume of goods shipped exceeded that of 1966. Good progress was made in the export market, which in 1967 accounted for more than 15% of the total sales volume. Every effort is being made to retain our export position, but this will be increasingly difficult due to intensive foreign competition.

OPERATIONS

Although the expansion programs at three of the Company's plants caused disruption to normal production flow, continued concentration on the efficiency improvement program had the desired effect of still further reducing production costs, thus offsetting to a considerable degree the price reductions generated by a highly competitive market.

The expansion programs at Vancouver, Dartmouth and Brockville plants have now been completed, and much credit is due the manufacturing management and the supervision of the plants concerned for the expeditious manner in which the expansion was carried out with minimum disruption to regular production. The manufacturing floor space at the Vancouver and Dartmouth locations has been doubled, and more than 100,000 square feet added to the Brockville works.

The Vancouver, Sentinel and Dartmouth plants are now equipped with the best of modern high-speed machinery available for the production of a wide range of communication cables. With these facilities the Company is in a strong position to take advantage of expected increases in demand from both domestic and export markets.

The Brockville plant expansion includes—

- (a) an addition to the Magnet Wire facility to meet anticipated demands from electrical and electronic manufacturers for magnet wires to be used in both the capital and consumer goods sectors;
- (b) an addition to the Rubber Department to provide space for new equipment to produce cables with cross-linked polyethylene insulation. The wide acceptance of this new product has revolutionized the approach to conventional rubber insulations, and the Company is now well equipped to meet present and future demands for this product line;
- (c) an addition to the Warehouse and Shipping area to provide space for Central Warehouse stocks and improve customer service;
- (d) a new Rod Mill furnace designed to increase output and ensure continuation of the high quality of Phillips' rods, which have found wide acceptance in both domestic and European markets.

In mid-1967, it was decided to establish a new factory at Rimouski, Quebec, which will produce a portion of the communication cables previously manufactured in Montreal. The addition of this plant will give the Company a useful base for the growing demands for telephone cable in Eastern Quebec.

COPPER PRICE

In January 1967, Canadian copper producers raised the price of copper wire bars from 45 cents to 47¼ cents per pound. In December, there was a further increase from the 47¼ cent price to 51 cents. Based on the estimated tax-paid profit realized on our inventory during the year due to these price increases, \$150,000 was transferred from Surplus to General Reserve. This tax-paid reserve now stands at \$750,000, which your Directors believe would adequately cover inventory losses caused by any future decrease in the price of copper. The effect on profit and share earnings is shown in the Financial Highlights.

PROPOSED ACQUISITION

On March 27, 1968, following extensive investigation and negotiations, the Company entered into an agreement with Triangle Conduit & Cable (Canada) Limited to purchase all the outstanding shares of its wholly-owned subsidiary — Dominion Electric Manufacturing Company, Limited — which manufactures all the wire and cable and related products distributed by Triangle. Dominion Electric has four manufacturing divisions producing wire and cable, rigid conduit, outlet boxes and underfloor-duct wiring systems. The agreement provides, in addition to acquisition of all the manufacturing facilities, that Dominion shall have the sole right to use the name "Triangle Conduit & Cable (Canada)", well known in the trade. If the agreement is consummated, the addition of the related product lines to your Company's broad range of wire and cable products would strengthen its position in the building wire field and provide an important element of diversification.

DIRECTORS

The Board was saddened by the death in June 1967 of Mr. Ralph H. Waddington, a Director of the Company. Mr. Waddington had been a sincere friend of the Company of many years' standing, and his presence and counsel will be greatly missed.

MANAGEMENT & EMPLOYEES

During the past several years, the Canadian economy has taken another great surge forward, and the Company has been able to take full advantage of increased markets by expansion of buildings, equipment and manpower. During this period, the demands on Management have been met without excessive strain. Looking to the future, however, it is apparent that continued expansion will bring with it increased requirements for men with sound judgment who are knowledgeable in Management practices.

Last year, in cooperation with the Economic Council of Canada, a beginning was made on a Management Development program. The whole plan is based on the concept that both the Company and each individual in it will benefit if personal talents and abilities are used to the full, and this is the basic aim.

Negotiations for a renewal of the contract between the Company and the bargaining agents for hourly-paid employees at Vancouver commenced in January and are still in progress.

The employee strength of your Company at the end of 1967 was 1,215, compared with 1,455 a year ago. The Sentinel plant of Phillips Cables (Western) Limited now has 136 employees, which are included in the above total.

The difficulties and challenges of the past year were made easier by the whole-hearted support of all employees of the Company, including hourly-paid employees, staff, and management. Once again, your Directors wish to express their thanks and appreciation for the splendid efforts which were put forth in 1967.

OUTLOOK

The year 1967 started off strongly, but as economic pressures mounted, the intake of new business gradually fell off, with a very pronounced decrease in new business in the months of November and December. This resulted in reduced shipments of wire and cable in January and February 1968, and it is evident that first quarter results will not equal 1967 performance.

In contrast with reduced shipments, orders entered for the first quarter of 1968 are well above forecast, thus ensuring a better level of manufacturing operations, with consequent opportunities for profit improvement.

In the longer term, prospects appear reasonably good despite the overall uncertainties of the economy. Demand for electric power and communication services is still accelerating with consequent increased requirements for power and telephone cables.

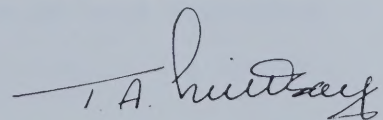
Unfortunately, due to tariff reductions negotiated under the GATT Agreement, combined with less effective anti-dumping regulations, imports of power and communication cable are increasing, at prices which appear to be below fair market value in the country of origin.

The world-wide shortage of copper, at a time when Canadian supply of the metal has been adequate, should continue to benefit our rolling mill operation. There has recently been a new interest in consumer products, and demand for wires used in this field has increased over the last few months. The continued growth of the resource industry has enabled the Company to maintain a good production level for special cables associated with mining, chemical and extractive plants, oil refineries and other major industries.

The urgent need for new housing, as exemplified by the increase in housing starts in the face of high interest rates, will result in greater markets for building wire. The Company has recently introduced several new products in this field which will have a beneficial effect on volume and cost.

Undoubtedly, the year ahead will pose many problems and challenges; we remain confident of our ability to meet them with competence and enthusiasm.

On Behalf of the Board of Directors



President

CONSOLIDATED

AS AT DE

ASSETS

Current Assets

	1967	1966
Cash	\$ 406,393	\$ 28,181
Accounts receivable	6,743,188	6,768,059
Inventories at lower of cost and realizable value	12,145,025	16,382,533
Prepaid expenses	143,916	84,028
	<u>19,438,522</u>	<u>23,262,801</u>

Special Refundable Tax

	<u>148,358</u>	<u>162,893</u>
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Investments — at cost

Non-consolidated subsidiary — shares	14,000	6,000
Other	20,000	20,000
	<u>34,000</u>	<u>26,000</u>

Fixed Assets

Land — at cost	385,012	332,374
Buildings at cost, less accumulated depreciation \$1,604,297 (1966 — \$1,434,930)	5,051,485	3,821,786
Machinery at cost, less accumulated depreciation \$10,055,160 (1966 — \$9,010,239)	6,954,796	3,995,294
Construction in progress — at cost	2,221,265	3,172,761
	<u>14,612,558</u>	<u>11,322,215</u>

Unamortized Bond Discount

	<u>135,599</u>	<u>146,927</u>
	<u>\$34,369,037</u>	<u>\$34,920,836</u>

ANCE SHEET

1, 1967

LIABILITIES

Current Liabilities	1967	1966
Bank indebtedness	\$ —	\$ 974,745
Accounts payable and accrued liabilities	4,495,565	6,220,813
Current maturities of long-term debt	43,017	—
Income and other taxes	419,740	1,645,547
Dividend payable	277,128	356,128
Deposits held for returnable containers	1,182,247	1,232,756
	<u>6,417,697</u>	<u>10,429,989</u>
Long-Term Debt (Note 1)	<u>6,715,280</u>	<u>6,500,000</u>
Deferred Income Taxes	<u>1,776,000</u>	<u>1,193,000</u>

SHAREHOLDERS' EQUITY

Capital Stock (Note 2)		
Authorized — 5,000,000 shares without nominal or par value		
Issued — 3,958,975 shares (1966 — 3,956,975)	9,717,317	9,709,317
Earned Surplus	8,992,743	6,488,530
General Reserve (Note 3)	750,000	600,000
	<u>19,460,060</u>	<u>16,797,847</u>

Signed on behalf of the Board:

T. A. LINDSAY, Director.
GÉRARD GINGRAS, Director.

<u>\$34,369,037</u>	<u>\$34,920,836</u>
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PHILLIPS CABLES LIMITED
AND WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966
Sales	\$59,375,944	\$59,415,203
Cost of sales, selling and administrative expenses	52,221,823	50,231,410
Depreciation	1,225,130	1,209,898
Bond interest and discount	380,173	381,875
Remuneration of directors and senior officers	220,630	188,219
	<u>54,047,756</u>	<u>52,011,402</u>
Profit before income taxes	<u>5,328,188</u>	<u>7,403,801</u>
Provision for income taxes (Note 4)		
Taxes payable for the year	1,220,000	2,959,000
Transfer to deferred income taxes	583,000	566,000
	<u>1,803,000</u>	<u>3,525,000</u>
Net profit	<u>\$ 3,525,188</u>	<u>\$ 3,878,801</u>

CONSOLIDATED STATEMENT OF EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966
Balance at January 1	\$ 6,488,530	\$ 3,787,137
Net profit for the year	3,525,188	3,878,801
	<u>10,013,718</u>	<u>7,665,938</u>
Dividends	870,975	837,408
Transfer to general reserve (Note 3)	150,000	340,000
	<u>1,020,975</u>	<u>1,177,408</u>
Balance at December 31	<u>\$ 8,992,743</u>	<u>\$ 6,488,530</u>

PHILLIPS CABLES LIMITED

AND WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1967

Source of Funds	1967	1966
Net profit	\$3,525,188	\$3,878,801
Charges not requiring expenditure of funds:		
Depreciation and net book value of assets retired	1,252,659	1,344,528
Amortization of bond discount	11,328	8,125
Deferred income taxes	583,000	566,000
	<u>1,846,987</u>	<u>1,918,653</u>
Funds provided from operations	5,372,175	5,797,454
Issue of capital stock	8,000	3,282,377
Long-term debt — equipment loan and chattel mortgages . . .	433,748	—
Special refundable tax	14,535	—
	<u>5,828,458</u>	<u>9,079,831</u>
Application of Funds		
Investment in fixed assets	4,543,002	3,725,730
Investment in non-consolidated subsidiary	8,000	—
Dividends	870,975	837,408
Long-term debt — bonds	150,000	—
— equipment loan and chattel mortgages . . .	68,468	—
Special refundable tax	—	162,893
	<u>5,640,445</u>	<u>4,726,031</u>
Increase in Working Capital	<u>\$ 188,013</u>	<u>\$4,353,800</u>

PHILLIPS CABLES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1967

1. Long Term Debt	1967	1966
5¾ % First Mortgage Sinking Fund Bonds Series A due February 1, 1985		
Authorized and issued	\$6,500,000	\$6,500,000
Less: Purchased and cancelled	150,000	
	<u>6,350,000</u>	<u>6,500,000</u>
6% Equipment loan	67,606	
7½ % Chattel mortgages	340,691	
	<u>408,297</u>	
Less: Current maturities	43,017	
	<u>365,280</u>	
	<u>\$6,715,280</u>	<u>\$6,500,000</u>

Sinking fund payments sufficient to retire \$4,700,000 of the Series A bonds by February 1, 1984 are required. The first payment due February 1, 1968 has been fulfilled by the purchase and cancellation of \$150,000 of bonds during the year.

2. Capital Stock

Prior to November 1, 1967, 400 shares were issued at \$20 per share on the exercise of options previously granted under the incentive stock option plan. No options are outstanding. The authorized capital of 1,000,000 shares without nominal or par value was subdivided into 5,000,000 shares without nominal or par value by supplementary letters patent dated November 4, 1967.

3. General Reserve

\$150,000 has been appropriated from surplus to provide, net of income taxes, for fluctuations in inventory values.

4. Income Taxes

The profits of the wholly-owned subsidiary included in the consolidated profits are exempt from income taxes in accordance with the provisions of Section 71A of the Income Tax Act. The period of exemption ends February 28, 1969.

5. Pension Plans

The unfunded actuarial liability of the employees' pension plans as at December 31, 1966 was \$1,863,000. During the year the Company made payments as recommended by the actuaries to amortize this liability over a period of 22 years from that date.

The normal retirement age of hourly paid employees at the Brockville and Montreal factories was reduced to 65 from 70 effective December 1967.

6. Commitments

Commitments for capital expenditure not provided for in the accounts amount to \$1,440,000. The company has subscribed for and been allotted 48,000 common shares of an associated company at a price of \$10 per share, the payment for which is on the basis of if, as and when issued.

RIDDELL, STEAD, GRAHAM & HUTCHISON

CHARTERED ACCOUNTANTS

630 DORCHESTER BLVD. W.
MONTREAL 2

AUDITORS' REPORT

To The Shareholders
Phillips Cables Limited

We have examined the consolidated balance sheet of Phillips Cables Limited and its wholly-owned subsidiary as at December 31, 1967 and the consolidated statements of profit and loss, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON

February 9, 1968

PHILLIPS CABLES LIMITED

REGIONAL SALES OFFICES & FACTORIES

SALES OFFICES

Region	Office Address	Manager
Atlantic Provinces	Woodside Industrial Park, Dartmouth, N.S.	R. L. Smith
Quebec	620 Dorchester Blvd. West, Suite 825, Montreal	A. Roy
Ontario	56 Sparks Street, Ottawa	D. E. Haig
	King Street West, Brockville	
	26 Hollinger Road, Toronto	C. F. Jardim
	540 Woodward Avenue, Hamilton	L. V. MacDonald
Manitoba	1236 Sargent Avenue, Winnipeg	P. H. Wylie
Saskatchewan	1335 Wallace Street, Regina	
Alberta	14733 - 123rd Avenue, Edmonton	A. Sandilands
	3604 Burnsland Road, Calgary	
British Columbia	8330 Chester Street, Vancouver	S. Elkins
Bahamas	P.O. Box 541, Freeport, G.B.I.	A. F. Miller

FACTORIES

Atlantic Provinces	Dartmouth, N.S.	J. A. Fraser
Quebec	Montreal	Y. Trudel
	Rimouski	J. M. Vinette
Ontario	Brockville	Head Office
Prairie Provinces	Sentinel, Alta.	J. P. McQue
British Columbia	Vancouver	E. G. Purdy



ANYWHERE IN CANADA
...PHILLIPS CABLES

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SIX FACTORIES
10 WAREHOUSES COAST TO COAST

